CHAPTER VI

✓ FREE TRADE VERSUS PROTECTION

I. Introduction.

II. Methods by which Protectionists would develop Home Industries.

III. Incidence of Protective Duties.

IV. Arguments for Protection.

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Free Trade Versus Protection

1. Introduction

(a) Free Trade = No restrictions on imports & exports. No interference by government because consider ultimate interests are best promoted by the state's non-interference.

(b) Protection = Restrictions on imports & exports. One imports for competing with local goods, & exports of raw materials for which can be made up into manufactures at home. Believe in good interference. Thus by protection alone the country's ultimate interest can be safeguarded.

2. Methods by which protectionists would develop home industry

(a) Import duties :- Imposition of a financial burden on foreign competing goods so as to make their selling price higher than or at least equal to the local price. Assumption is that price is raised by full amount of duty. Amount of duty must be equal to difference between Cost of prod. at home & cost of prod. abroad in foreign country.

(b). Export duties :- Object = Preservation of raw materials for home use. Duty will reduce profit of producer if he sells abroad & so will be compelled to turn to the home buyer.

(c). Bounties & Subsidies :- Contributions of money made by government to help a particular industry. Addition given by govt. to company besides the price they realize from consumers. Bounties may be given directly to the manufacturer of articles produced in country for export abroad. Indirectly by providing services of export, special low prices for raw materials etc.

(d). Dumping :- Whenever producer of a commodity selling part of supply at an exceedingly low price in a foreign country. Thereby seek to keep up prices in domestic market, their chief market.

(e). Reciprocity :- R. or F.T. gives advantages to country that employs it, but does so by the reduction or removal of duties. Duties removed